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LOUISIANA OFFICE OF RISK MANAGEMENT FRAUD CONTROL AND PREVENTION RECOMMENDATIONS

INTRODUCTION

We have reviewed supporting documentation presented relating to the Louisiana Office of Risk Management-Road Hazard Department Fraud and have developed the following comments, conclusions and recommendations for enhancing internal controls and fraud detection within the organization.

COMMENTS

Collusion Involved

1. The reported fraud involved collusion within the Claims Unit and between the Claims and Accounting Units.
2. Collusion greatly adds to the difficulty in minimizing and preventing fraud (i.e., it renders a key control--segregation of duties--basically ineffective.)
3. Existing and newly developed controls must be designed giving recognition to the fact that collusion has occurred.

Existing Controls Were Circumvented Without Being Highlighted or Detected

While procedures and controls were in place, they were circumvented (e.g. claims were entered into the claims payment system and checks were generated and disbursed without proper approval). The Office of Risk Management staff, which cited heavy workloads and staffing vacancies, did not have the reporting mechanism or time availability to detect and follow-up on the effects of the circumvention.

Certain "Patterns of Fraud" Were Not Recognized and Acted Upon

Fraud "indicators" or "red flags" such as unusual increases in activity, requests for signing of blank payment authorizations and checks being frequently picked up were apparently not communicated to ORM management and staff.

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CONCLUSIONS

1. Existing controls need to be revised and/or supplemented.
2. Exception reporting to detect circumvention of Policies, Procedures and Controls were either not reviewed or need to be developed.

RECOMMENDATIONS

The following recommendations have been developed to assist this admittedly overworked and under-staffed organization ensure that Policies, Procedures and Controls are being adhered to and provide a mechanism to alert it to potential fraud and misappropriation. These recommendations also include suggested additions to existing Policies, Procedures and Controls that should further minimize and detect fraudulent activities.

The recommendations have been derived from our experience in investigating numerous fraud “modus operandi” in the Property & Casualty and Workers’ Compensation areas, have resulted in the detection of fraud and have been credited with minimizing the incidence of fraud, once implemented. In summary, the recommendations address the following areas where fraud and misappropriation can occur:

- Establishment of tighter internal controls to ensure that only valid, properly approved claims are entered and paid.
- Ensuring that claims are properly supported, accurate and paid to the proper payee.
- Ensuring that existing segregation of duties is not compromised through collusion.

We, therefore, recommend the following:

1. Development of Additional System Controls/Exception Reporting (e.g. “Red Flags”) in the following areas to ensure compliance with established controls and procedures.

A. Development of reports that show:

1. Voided, issued and cashed checks-by adjuster/examiner-See also Section 2.B 2) and 2.B 5) below.
2. Changes to payee, address, and amount fields-See also C 2 below.
3. Payments to employee addresses or Post Office Boxes.

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4. Payments after Final Payments. (if system codes Final Settlements -e.g., Workers Comp Permanent, Property & Casualty Settlement)
5. Overrides to estimating software (if they exist) -e.g., Auto, P & C.
6. Checks issued and cashed same day (to detect circumvention of checks mailing and reporting procedure)
7. Frequent payments to same contractors, claimants and providers (identified by - shown by federal tax identification or social security number) detect payees operating under multiple names and patterns of possible collusion between claims staff and outside vendors.
8. Unusual “spikes” in activity / payments such as that which occurred in the Claim Unit’s Road Hazard Department.
9. Matching providers’ dates of service with transportation or mileage paid (Workers Comp) to ensure providers’ claims, transportation and mileage are valid charges - see also 2 F below.

B. Determine the feasibility of:

1. Enabling supervisory approval being recorded online:
2. System rejection of unapproved/unauthorized transactions or:
3. Exception reports of unapproved/unauthorized transactions

C. Development of On-line Access Controls and Detection Reports including:

1. Limits/Restricting access to data fields (e.g. for online segregation of duties)
2. Reports of violations of authorized access
3. Procedures to immediately delete logon IDs/passwords of terminated staff
4. Listings of, or rejection of, use of terminated employees’ logon IDs/passwords
5. Periodic changing of logon IDs/passwords
6. Periodic reminder to employees re: not sharing logon IDs/passwords

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7. Periodic survey to detect employee terminals not logged off

2. Development/Strengthening of Manual Controls through the establishment of:

- A. Re-inspection procedures to test for valid claims and proper support (e.g., field review of original source documentation)
- B. Check control procedures including:
 - 1. Inventory and listing of blank check numbers.
 - 2. Accounting for all checks including voids.
 - 3. Physical safekeeping of checks.
 - 4. Physical safekeeping of any signature plates used.
 - 5. Performance of bank reconciliations to detect unrecorded check payments.
- C. Requirement that all payments be supporting by original documentation only with minimal exceptions reported and approved.
- D. Procedures for receipt of payments (e.g. from Second Injury fund) including segregation of duties among:
 - 1. Receipt of funds
 - 2. Recording of funds received (on Accounting Records)
 - 3. Timely deposit
- E. Periodic audits of:
 - 1. Existing procedures as to currency, feasibility, adequacy
 - 2. Compliance with existing procedures
 - 3. ORM follow-up action on irregularities noted in exception reports

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4. Payment support including verification that expenditure was actually incurred (e.g. “field review of original source documentation”)
5. Exceptions noted-independent of any ORM review
6. Separation of duties-actually being performed concerning:
 - a. Claims approval
 - b. Claims entered into system
 - c. Claims approved for payment
 - d. Checks issued
 - e. Checks mailed
 - f. Reimbursement Checks received (e.g. from Second Injury Funds)
- F. Where rehabilitation nurses visit claimants, they should verify provider charges with the claimants to ensure that treatment was given or the service was actually provided.
- G. Establishment of “Help Request System” whereby the Office of Risk Management can request assistance when it feels its manpower limitations preclude compliance with existing controls or follow up on exception report irregularities.

Note:

If desired, Trinity would be pleased to assist in the development of the above Exception Reports and additional Manual Controls.